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NOTE BY THE SECRETARIAT ON THE POSSIBLE
REPERCUSSIONS OF THE EUROPEAN COMMON
MARKET ON LATIN AMERICAN EXPORTS

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N O T E

The purpose of this document is to call attention to an important problem which is likely to have far-reaching effects on all Latin American trade with Europe. It was not possible to obtain complete and reliable information concerning the European Common Market Treaty before its recent signature, and therefore the observations contained in this Note should be considered as very preliminary and subject to later correction and amplification.

Editorial note: The titles of the various organs, reports and agreements referred to in this Note may not correspond to their officially accepted titles, as the English text of the European Common Market Treaty was not available at the time the Note was translated.

/I. GENERAL FEATURES

I. GENERAL FEATURES OF EUROPEAN ECONOMIC INTEGRATION

1. Common market and free trade area

The signature in Rome on 25 March 1957 of the Treaty creating the European Economic Community marks the end of the first phase of the preliminary work relating to European economic unification.^{1/} The second phase, consisting of the ratification of the Treaty by the parliaments of the six participating countries, which must take place before the Treaty can enter into force, will probably occur before the end of 1957.

At the same time studies are being prepared concerning the establishment of a free trade area in Europe and embracing those countries which are members of OEEC.^{2/} These studies will continue until 31 July 1957; after that, if the results are favourable, negotiations will begin among the Governments concerned.

Close observation of events relating to the economic integration of Europe and, possibly, of other parts of the world,^{3/} is of considerable interest to Latin America for two reasons: (a) because of the possibility of utilizing the European experience for the eventual creation of a

^{1/} A common agency was also set up for the development of nuclear energy, known as EURATOM, which is similar in several respects to the European Coal and Steel Community.

^{2/} The following six countries are contracting parties to the European Economic Community Treaty: France, Federal Republic of Germany, Italy, Netherlands, Luxembourg and Belgium. In addition to these countries, other members of OEEC are: Austria, Denmark, Greece, Iceland, Ireland, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom. Spain is a member of the Organization only in so far as the work of the agricultural sector is concerned.

^{3/} There have been persistent comments in recent weeks concerning the possibility of similar movements towards economic integration in the Far East, with Japan as its centre; in the Middle East, among the Arab countries of the region; and in Latin America.

common market in Latin America, and (b) because of the important effects it may have on the policy and volume of Latin American trade with Europe. Although it would be premature to draw any definite conclusions concerning either of these two points, it does seem desirable to bear them in mind from the outset.

The activities of the European Economic Community, subject to the numerous limitations and qualifications laid down in the Treaty, will be carried out in accordance with very broad objectives which include the following:

- (a) The elimination, among member States, of customs duties and quantitative restrictions on imports and exports;
- (b) The introduction of a common tariff and of a common trade policy in relation to third countries;
- (c) The removal, among member States, of obstacles to the free movement of persons, services and capital;
- (d) The introduction of a common agricultural policy;
- (e) The adoption of a common transport policy;
- (f) The establishment of a system to ensure that unfair practices do not prevent competition on the common market;
- (g) The adoption of measures to facilitate the co-ordination of the economic policies of member States and to counteract disequilibria in their respective balances of payments;
- (h) The co-ordination of national legislation so far as this is required for the operation of the common market;
- (i) The establishment of a European Social Fund, designed to improve employment opportunities for workers and to raise their standard of living;
- (j) The formation of a European Investment Bank, with a view to facilitating the Community's economic expansion through the creation of new resources;

The great variety of the Community's objectives is indicative of the high degree of social and economic integration which the six member countries hope to achieve.

/The European

The European Economic Community differs from the free trade area (as this is defined in the report of the OEEC Working Group)^{4/} in the following two main aspects:

- (a) In addition to the elimination of customs duties among the six member countries, the common market implies the equalization of the tariff systems of the six countries in relation to the rest of the world. This tariff equalization does not exist in the free trade area.
- (b) The maintenance of equilibrium in the international payments of the member countries calls for a high degree of co-ordination in regard to monetary and fiscal policies, on the one hand, and a common foreign trade policy among the six countries, on the other. To administer this and other aspects of the Community, supra-national organs are to be established, with autonomous executive powers. This is not the case in regard to the free trade area, where the establishment of such supra-national agencies is not envisaged, since it is expected that each country will not have to renounce its right to negotiate trade treaties, payments agreements, tariff modifications, etc., directly with third countries.

The smooth operation of the Community implies the consequent introduction of a common market policy in respect of trade, monetary, fiscal and social affairs.^{5/} This policy would cover the following four main aspects:^{6/}

- (a) The introduction of competitive trade rules for the market and the progressive elimination of discrimination, monopolies

^{4/} Report on the possibility of creating a Free Trade Area in Europe, published by the Organization for European Economic Co-operation, Paris, 5 February 1957.

^{5/} The member States have agreed to co-ordinate their economic policies to the extent necessary for achieving the Treaty's objectives, in close collaboration with the organs of the Community.

^{6/} The transport and agricultural sectors will be dealt with in separate provisions. Agriculture has been accorded special treatment, which is described below.

and Government or semi-official subsidies;

- (b) Progressive uniformity in the fiscal legislation of the member countries, in order to prevent discriminatory taxation of exports and imports, as well as of capital and services;^{7/}
- (c) The establishment of permanent machinery for consultation, and joint action to deal with economic fluctuations, the balance of payments and the monetary situation;^{8/}
- (d) Acceptance of the principle of progressive uniformity in social legislation and in legislation relating to employment conditions and the remuneration of labour.^{9/}

For its effective operation, the free trade area will not require national economic policies to be co-ordinated to the degree indicated in the European Economic Community Treaty. It is recognized that the national economies of the countries in the free trade area will become progressively interdependent as trade barriers are eliminated and that this interdependence will require a certain degree of co-ordination. But several members of OEEC have expressed their unwillingness to participate in an organization which implies the establishment of agencies with supra-national powers. On the other hand, the same criterion is laid down in the report of the OEEC Working Group in which the hope is expressed that the existing institutions ^{10/} for co-operation will be sufficient to meet the requirements of the new situation.

^{7/} Throughout the Treaty and the related documents, there is an evident desire to avoid the use of the expression "standardization", although this is the obvious sense of the various provisions.

^{8/} The member countries have agreed to adopt the necessary economic policy in each case to ensure equilibrium in their respective balance of payments and confidence in their currency, together with price stability and a high level of employment.

^{9/} Member countries have declared their readiness to take joint action concerning the training of labour, the conduct of negotiations between trade unions and employers' associations, etc., as well as to establish a European social fund, designed to facilitate the maintenance of the level of employment.

^{10/} The European Payments Union, the International Monetary Fund, various standing committees of OEEC, etc.

/There is

There is another important difference between the free trade area and the European Economic Community: the problem of the definition of origin. In the Community, where tariffs in relation to third countries are to be standard and internal tariffs are to be eliminated at the end of a transition period, there is no need to identify merchandise by country of origin. This need obviously exists, to prevent evasion through trans-shipment of goods, when each member country continues to maintain its own customs tariffs in relation to third countries as is the case in the free trade area.^{11/}

The organs of the European Economic Community which wield some degree of supra-national authority are the following:

- (a) An Assembly of representatives, initially appointed by the parliaments of the six countries and who are later elected by direct universal suffrage. The Assembly will meet once a year to discuss the report of the European Commission; if its report should be rejected by two-thirds of the representatives, the Commission must resign;
- (b) A Council consisting of the Ministers representing the Governments of the member countries, vested with the supreme power of decision in all matters relating to the common market. Some of its decisions will be taken by simple majority vote, while others will require unanimity;
- (c) A Commission consisting of nine members, no more than two of whom may represent any one country. The members of the Commission, although nominated by their respective countries, will not be responsible or answerable to their Governments, as their actions will be governed exclusively by the terms of the Treaty and by the decisions of the Council of Ministers and of the Court of Justice. This European Commission will supervise the execution of the Treaty, make recommendations to the Council of Ministers

^{11/} This was one of the main problems considered by the OEEC Working Group in the report mentioned earlier.

and take such action as may be required to enforce the Council's decisions.^{12/}

- (d) A Court of Justice, consisting of seven members nominated by Governments, which will be responsible for interpreting the Treaty and ruling on any disputes between member countries involving Governments or private enterprises.

In addition to these main institutions, others will be set up, such as the Economic and Social Council, which will have advisory functions and consist of representatives of all sectors of activity in the six countries; the Advisory Monetary Committee, which will be responsible for observing the behaviour of the balance of payments in the six countries and for making recommendations; and the executive and advisory subsidiary bodies of the Community's dependent agencies, such as the European Investment Bank and the Social Fund for the readjustment of manpower.

2. Liberalization measures

The European Economic Community Treaty provides for the progressive elimination of customs duties among its six member countries over a minimum transition period of 12 years, divided into three periods of four years each. These periods may be extended on certain exceptional conditions. The first may be prolonged for two years; the second and third may also be prolonged, but the transition period cannot last longer than a total of fifteen years from the date on which the Treaty enters into force. At the end of the transition period, all the arrangements envisaged for the normal operation of the common market are to be in force, save for the exceptions expressly provided for in the Treaty.

The abolition of tariffs, which is to be complete by the end of the transition period, will be effected according to the following timetable: first there will be a 10 per cent reduction within one year from

^{12/} The preliminary report on which the final text of the Treaty was based (Rapport des Chefs de Délégations aux Ministres des Affaires Étrangères, published by the Inter-Governmental Committee established by the Conference of Messina, Brussels, 21 April 1956) assigned wider supra-national executive powers to the European Commission.

/the date

the date on which the Treaty enters into force; another 10 per cent reduction in the following eighteen months and a third reduction at the end of the fourth year. A reduction of at least 10 per cent is to be achieved in the course of the first period, in order to reach 50 per cent by the end of the second period. Reductions during the second and third periods are to be scaled in a somewhat similar manner. The initial tariff abolition is to be compulsory in respect of each commodity, but for the subsequent reductions each member country may make a global calculation of the percentages of compulsory tariff reduction covering all of its commodities.^{13/}

Basically the same provisions apply to fiscal duties^{14/} and to internal taxes having effects similar to import duties.

The same flexibility is encountered in the machinery established for tariff equalization in the six member countries in relation to third countries. This equalization is based on the general principle that each member country's present tariffs should be replaced by a common tariff, equal to the arithmetical average of the existing ones. There are, however, several exceptions to this rule, usually designed to establish tariffs higher than those which would result from the application of the arithmetical average method, for manufactured goods, or lower tariffs for raw materials and semi-finished

^{13/} As for the first reduction, the duty on each commodity is to be lowered by 10 per cent of the base duty (in force as of 1 January 1957). In the subsequent reductions, however, each member State is to reduce all of its duties, so that total customs revenue (the product of base duties for the value of imports from other member countries during 1956) are to be reduced by 10 per cent, the reduction on each commodity being not less than 5 per cent of the respective base duty. In addition, for all commodities on which a direct duty of more than 30 per cent is levied, each reduction is to be at least equal to 10 per cent of the respective base duty.

^{14/} With the differences indicated in article 17 of the Treaty, the most important of which is the obligation to reduce the base duty by at least 10 per cent in each period of the reduction and hence outside the system of over-all duty reduction.

/goods.

goods.^{15/} The six countries' tariffs will become uniform in the course of the transition phase, that is, within a maximum of 15 years.^{16/}

In the study of the free trade area, it was considered desirable that internal tariff reductions by member countries should be effected by a process similar to that specified for the European Economic Community and at the same rate.

The elimination of quantitative trade restrictions between member countries is another important element in the liberalization process. All quantitative restrictions on imports are to be removed in the course of the transition period. The procedure adopted to achieve this is the gradual expansion of import quotas. In order to avoid any discrimination, it is provided that this procedure is to apply to global quotas rather than to individual commodities. At the end of the tenth year no quota may be less than 20 per cent of the national output of the commodity to which it applies. Quantitative restrictions on exports are to be eliminated by the end of the first stage.

Also in relation to quantitative restrictions, the procedure recommended for the free trade area is, obviously, the same as that described in the European Economic Community Treaty, since the Community is mainly based on the rules of the OEEC liberalization code.

Quantitative restrictions may be temporarily re-introduced by a member country, as a means of offsetting a disequilibrium in its balance of payments, in accordance with the Treaty and subject to prior authorization by the European Commission.

^{15/} The exceptions are defined in five annexed protocols containing lists of commodities to which the general rule will not apply. For manufactured goods, relatively high fixed duties will replace those resulting from the application of the arithmetical method. In another list, mainly of raw materials, the duties of the common tariff are not to exceed 3 per cent. For semi-manufactured goods, included in another list, the duties must not exceed 10 per cent. The same exception is made for some chemical products, duties on which must not exceed 15 to 25 per cent. Finally, duties on many commodities await the negotiation between the countries scheduled to take place in 1957. (Articles 19 and 20 of the Treaty and annexed protocols I to V).

^{16/} Article 23 of the Treaty. This article contains provisions governing this rate.

3. Objectives and methods of development

The existence of different degrees of development in the associated countries is a problem that does not have the same importance in the European Economic Community as in the free trade area. In the common market, the only area which is largely under-developed is the southern region of Italy. With the main object of helping to develop this region (as well as other similar but smaller regions in the other five member countries), the European Investment Bank was founded. It has a capital of 1,000 million dollars, and will operate on a normal commercial basis, under a Board of Governors and a Board of Directors, both independent of the member countries. The function of this Bank, which, in addition to using its own funds, may contract loans on the capital market, will be to finance projects which, because of their scale, exceed the capacity of an individual member country, and to help in formulating a European investment policy.

In the projected free trade area, the problem of the under-developed regions is already much more serious. In those countries which might possibly be admitted to the area, under-development is not found in conjunction with a highly developed agricultural-industrial nucleus, as in the case of Italy; instead, they are countries which are "homogeneously under-developed".

For these countries,^{17/} the report of the OEEC Working Group suggests two possible alternatives. The first consists in postponing their admission for a period sufficient to enable them to reach a level which would place them on equal terms with the other associated countries. The other would be the immediate admission of these countries, with the proviso that, for a long period, they would not be compelled to remove customs barriers and other obstacles to free trade. On the other hand, they would be immediately entitled to free access to the common market.

^{17/} Greece, Turkey, Portugal, Ireland, Iceland and Spain (which is not a full member of the Organization, but the problem of its admission to the free trade area will certainly arise).

The second solution proposed by the OEEC Working Group appears to be the more reasonable one, but its final success would depend on whether, by the end of the period of grace allowed, the initial difference as to the level of development had been entirely, or at least very substantially, eliminated. In other words, the rate of economic development would have to be much higher in the under-developed countries of the group than in the others. If the difference in the levels of per capita income (among other indicators of economic development) were to remain unaltered or even increase at the end of the adjustment period granted, then the participation of the under-developed countries in the group could not be allowed to continue, or there would be a difficult readjustment crisis (if the economy of the under-developed country were sufficiently vigorous to achieve a re-allocation of resources) arising out of the unemployment caused by the closing-down of non-competitive industries. This latter situation is all the more probable since the establishment of the common market is designed to promote higher levels of industrial productivity in those of the participating countries which are capable of taking advantage of the increased size of the market. It is therefore to be expected, if the common market proves successful, that it will help to accelerate the rate of economic development of the more industrialized countries and that current differences will be accentuated.

Neither will non-admission to the common market pure and simple, which is the first solution put forward by OEEC, provide a solution to the problem of the under-developed countries, for the same reason, because the different levels of development would become more marked and the result would be an isolation which would be a further unfavourable element for those countries. It also appears that some of the under-developed European countries would be immediately placed in an untenable position, since a high proportion of their exports - both metropolitan and colonial - is currently directed towards the countries of the common market.^{18/}

^{18/} This is the case of Portugal, which in 1956 placed in the countries of the European Payments Union no less than 65 per cent of its metropolitan exports and 68 per cent of the exports of its overseas territories.

One possible solution might be to combine the two objectives very closely: liberalization of trade and promotion of development. Liberalization would be effected gradually, although perhaps at a slower rate than that applying to the fully developed participating countries. The temporary exceptions would be studied in order to determine which industrial sectors could become competitive through a development programme within the period of grace allowed. An investment fund would finance the new activities or the development of the existing ones which were judged to be more consistent with the country's potentialities and therefore capable of competing on the common market. The success of this solution will depend much more on the emphasis laid on the development programme than on the intrinsic merits of the market integration scheme (liberalization) adopted.

4. Special treatment for agricultural commodities

The rules of the European common market apply, in principle, to agricultural and to industrial commodities alike. At the end of the transition period, all obstacles to free trade in agricultural commodities, originating in national protectionist policies not controlled and co-ordinated by the Community's agencies will have disappeared. These national autonomous policies are to be replaced by a common policy of the six countries, drawn up within the framework of the European Economic Community, consisting of a common system of marketing crops and of stabilizing agricultural prices. The norms governing this agricultural organization of the six countries will have to be prepared gradually during the transition period.^{19/}

The inclusion of agricultural commodities proved to be the most difficult problem to solve, when the establishment of a free trade area to supplement the common market of the six countries was studied. Most of the members of the OEEC Working Group agreed on the inclusion in the

^{19/} The European Economic Community Treaty is very vague concerning these norms. It is quite clear that the intention is to let those norms for common action in the agricultural field, aimed principally at stabilizing commodity prices and the incomes of the farmers, be fixed gradually by a trial and error process, throughout the 12-year transition period.

system of all commodities traded, including agricultural commodities, while at the same time admitting that trade in the latter ought to be governed by a special system. The position of these countries was based on the recognition that it would be very difficult to introduce any system exclusively for industrial commodities, because of the lack of reciprocity among members of the area, some having a predominantly industrial economy and others an essentially agricultural one.^{20/} This position, nevertheless, met with the apparently firm opposition of the United Kingdom to the inclusion of agricultural commodities in the free trade area.^{21/} Its argument was that the barriers to intra-European trade in agricultural commodities were constituted much less by tariffs and quantitative restrictions than by others of an administrative nature, while the converse was true of industrial commodities. Hence the mere elimination of customs barriers would not be sufficient to ensure really free trade in agricultural commodities. On the other hand, the United Kingdom declared that it was not prepared to consider the elimination of the other administrative protectionist measures applied to its imports of agricultural commodities.^{22/}

In brief, the problem of including agricultural commodities appears to be the most difficult obstacle to the conclusion of an agreement of principle on the establishment of a free trade area in Europe.^{23/}

^{20/} Another argument against the exclusion of agricultural commodities is to be found in the Charter of GATT, which does not favour customs unions unless they apply to all or to the majority of the commodities traded between member countries.

^{21/} This position was set forth in A European Free Trade Area, United Kingdom memorandum to the Organization for European Co-operation, London, February 1957.

^{22/} In order to understand the implications of these measures, it should be remembered that the United Kingdom is the principal purchaser of European agricultural commodities.

^{23/} At the February meeting of the Council of Ministers of OEEC, which studied the report of the Working Group on the viability of a free trade area, it was decided to set up a new working group to study the problem of agriculture more thoroughly and to report to the Council before 31 July 1957.

II. POSITION OF OVERSEAS COMMODITIES IN THE EUROPEAN MARKET

1. Customs treatment

In regard to the colonial and associated territories of the member countries of the common market, the special status of "associated territory" was created and defined in the Convention annexed to the Treaty. ^{24/} This association is to be promoted not only through a special trade system by also through the creation of a development fund for the countries and their overseas territories, financed by the six countries in the common market and administered by the European Commission.

The customs treatment accorded to overseas commodities in the metropolitan territories of the six countries will consist, essentially, in the removal, by a gradual process throughout the transition period, of the tariffs currently applied to the imports of such commodities. The quantitative restrictions and other obstacles to trade will also be abolished.

The customs treatment accorded to the European commodities of the six member countries in these overseas territories will not constitute complete reciprocity in tariff elimination. Duty reductions granted in colonial or dependent territories in respect of imports from member countries will only amount to the difference between present duties on imports from the respective metropolitan territory and those levied on imports from third countries. Depending on the need to protect local nascent industries or those to be established in the future, or for fiscal reasons, there will still be, at the end of the transition period for establishing the common market, a general system of duties in the colonial territories, equivalent to the present duties for metropolitan commodities. What will disappear (and therein lies the concession made

^{24/} The Convention applies to the following territories; French West Africa, including Senegal, Sudan, Guinea, Ivory Coast, Dahomey, Mauritania, Niger and Upper Volta; St. Pierre and Miquelon; the Comoro islands; Madagascar and its dependencies; French Oceania; austral and antarctic territories; The Autonomous Republic of Togoland; Trust Territory of the Cameroons, under French administration; the Belgian Congo and Ruanda-Urundi; Trust Territory of Somaliland under Italian administration; and Netherlands New Guinea.

/by those

by those member countries which currently enjoy strong preferences in their colonial territories) is the discrimination between metropolitan commodities and those of third countries in respect of import duties levied on imports from countries belonging to the common market.

Customs treatment accorded to imports from third countries into the overseas territories associated with the common market will continue to be the same as at present.

Imports from third countries which are similar to those of the associated territories will be subject, in principle, to the duties of the common tariff, obtained by averaging the tariffs of member countries. Nevertheless, there are numerous and important exceptions to this rule, which are of great importance for Latin American exports intended for Europe. In a certain number of cases, the common tariff obtained by averaging the six present tariffs was judged insufficient from the standpoint of protecting similar overseas commodities and was replaced by duties fixed by negotiation among the contracting parties. In other cases, the negotiation of duties has yet to be concluded.^{25/}

The table below provides an interesting comparison of the duties obtained by averaging and those fixed by negotiation in respect of some of the more important of Latin America's exports.^{26/}

Commodity	Tariff obtained by averaging method (percentages <u>ad valorem</u>)	Tariff fixed by negotiation
Coffee	7.5	16
Cacao	2.5 (raw)	{ 9
"	3.5 (oasted)	
Cotton	1.5 (raw)	0
Oranges	8	{ 15 (from 15 March { to 30 September) { 20 (other periods)

^{25/} Lists A to G in the annex to the Treaty and mentioned in articles 19 and 20.

^{26/} The information in this table and the following one is necessarily fragmentary and is presented with great reservations. The tariff resulting from the averaging method has not yet been officially disclosed and hence, for this reason also, the data presented should not be regarded as definitive.

/Except for

Except for cotton, the duties fixed by direct negotiation between the contracting parties are higher than those based on the arithmetical average of duties in force as at 1 January 1957 under the tariffs of the six countries. Cotton is excepted not only because it is an extremely important raw material for European transforming industries, but also because there is no great volume of cotton production in the overseas territories of the member countries.

For other commodities currently exported to Europe by the Latin American countries duties (also established by negotiation) charged on entry into the common market will not be any less, as can be seen from the following table:^{27/}

<u>Commodity</u>	<u>Duties fixed by negotiation</u> <u>(percentage ad valorem)</u>
Fresh or frozen beef	20
Butter	24
Fresh bananas	20
Beet and cane sugar	80
Leaf tobacco	30

Finally, for several other commodities occupying an important place in Europe's trade with its overseas territories and Latin America, customs duties in respect of third countries have still to be fixed by the proposed negotiations which are due to be completed by the end of 1957.^{28/}

Some of the countries participating in the European Economic Community succeeded in having included in the Treaty provisions designed to protect, at least temporarily, their trade with third countries, once the agreement enters into force. These include the provisions contained in the annexed

^{27/} No information is available, not even of a provisional or unconfirmed nature, concerning the duties on these commodities calculated according to the arithmetical average method. Nevertheless, it is to be assumed that these average duties would be substantially below those indicated, as in the case of the first table.

^{28/} Among them, the following are important: timber, primary aluminium, magnesium, lead, tungsten, molybdenum and other metallic ores. (List G annexed to the Treaty).

protocols relating to the establishment of tariff concessions for imports of bananas into Germany and of coffee and cacao into Belgium, the Netherlands and Italy from countries other than the overseas territories, during part of the transition period. Under these provisions Germany will enjoy an annual quota of duty-free banana imports equivalent to 90 per cent of the amount imported in 1956 (after deducting the amounts imported from overseas territories ^{29/} until the end of the second period of tariff eliminations, and equivalent to 80 per cent of these amounts during the third period. Italy's coffee imports from third countries will be subject to the customs duties in force before the common market began to operate, up to the amount imported during 1956. ^{30/}

2. Common investments system

In exchange for the free opening of the African markets to their exports, the six European countries undertake to contribute jointly to the social and public utility investments effected regularly by the metropolitan countries in those territories, to a total amount of slightly more than 580 million dollars over a five-year period. ^{31/} The French colonies will receive through this fund 312 million dollars of non-French funds (apart from the 200 million which is the French contribution within the same general scheme). The German contribution will be the same as the French. ^{32/}

^{29/} 290,000 tons.

^{30/} As from the sixth year after the Treaty enters into force and until the end of the second period, the initial quota mentioned above is to be reduced by 20 per cent. From the beginning and throughout the third period, the quota is fixed at 50 per cent of the initial amount. Slightly different provisions govern coffee imports into the Benelux countries. The relevant provisions of the Treaty are not very clear for cacao imports effected by the latter countries.

^{31/} Participation in this overseas investment fund, as defined in the Convention annexed to the Treaty, will last 5 years. At the end of this period a new Convention is to be negotiated between the contracting parties. Although these have not for the moment assumed any obligation to renew the Convention, France expressed the hope, not only that it would be renewed, but that annual contributions intended for its territories would be at least the same during the next five year period as the quota corresponding to the last year of the present Convention (which is the highest for the period), namely 120 million dollars.

^{32/} See Annex I to these notes.

German adherence to this scheme was obtained as the result of prolonged negotiations. Apparently Germany's reluctance was not only due to the fact that it might have to side with France in the possible difficulties France might encounter in its dependent colonial territories, but also to the fact that the closer economic ties with Africa might jeopardize its flourishing trade with Latin America.^{33/} In several Latin American countries (particularly Argentina and Brazil) Germany is making large industrial investments. The maintenance of this flow of investments is possible only so long as trade with these countries remains at a high level.

III. EXPORTS OF SOME LATIN AMERICAN COMMODITIES TO EUROPE^{34/}

The possible repercussions which the formation of the European common market may have on exports of Latin American commodities can best be appreciated by bearing in mind certain fundamental data concerning these exports.^{35/}

Latin American exports of coffee have been declining slowly in relation to total world exports since the period immediately prior to the Second World War. From 84.2 per cent in 1934-48, the Latin American share fell gradually until it reached 73.9 per cent in 1955 (see table I). The same reduction has taken place at an even faster rate for coffee exports to Europe. Latin America's share in coffee exports to Europe fell from 78.1 per cent in 1934-48 to 56.8 per cent in 1954-55 (see table II). At the same time, world sales of African coffee rose from 6.9 per cent in 1934-38 to 19.9 per cent in 1955, and shipments to Europe rose even more rapidly, from 11.6 per cent of total European imports in 1934-38 to 35.3 per cent in 1954-55.

^{33/} It is sufficient to remember, to obtain some idea of the magnitude of the prospective changes, that current German imports from Mexico are equivalent in value to those from the whole of French Africa. Moreover, Western Germany exports solely to Argentina are twice its entire sales to French Africa.

^{34/} Tables with the statistical data referred to in the text are given in annex II. The tables cover a group of countries representing most of Western Europe.

^{35/} These data are presented here not as a systematic analysis, but rather in order to give some idea of the order of magnitude of the problems and to call attention to the need for further study.

The relative position of cotton differs in a certain respect. Latin America's share in world exports of this commodity has grown considerably (from 11.1 per cent in 1934-38 to 26.3 per cent in 1955). But the progress of African exports was equally rapid, and they tended to supply an increasing proportion of the European market (see tables I and III).

The data available on sugar are not so enlightening. But they do indicate a gradual rise in Latin American exports within the world total with a subsequent decrease (from 41.1 per cent in 1934-38 to 66 per cent in 1948-50 and 46.9 per cent in 1955), alongside relative stagnation of the share of African sugar in this trade. Nevertheless, there is a considerable drop in the proportion of sugar exported by the Latin American countries to Europe (from 53.2 per cent in 1951-52 to 33.7 per cent in 1954-55), to the advantage of imports from other areas (see tables I and IV).

Latin America's share in world cacao exports has remained stationary, and so has that of Africa. Latin America's contribution to European supplies of this product, which is not large (about 10 per cent of total European imports in recent years) nevertheless reveals a slight upward trend (see tables I and V).

So far as copper is concerned, Latin America's position on the European market also shows a tendency to improve (from 6.8 per cent of total European imports in 1951-52 to 11.7 per cent in 1954-55), although its relative share is still far below that of Africa (see table VI).

It is interesting to observe also that, in the case of coffee, Latin America's share in European imports has declined more sharply in the countries of the European Economic Community (from 77.3 per cent in 1934-38 to 52.9 per cent in 1954-55), which represents the bulk of the colonial Powers, than in the other group of European countries consisting of the Scandinavian countries and the United Kingdom where the decrease was from 81 per cent to 69.4 per cent over the same period. The same remarks apply to Brazilian exports to the two groups of countries for the same period.

/IV. POSSIBLE

IV. POSSIBLE REPERCUSSIONS OF THE EUROPEAN COMMON MARKET ON LATIN AMERICA

The European Economic Community Treaty is more than a trade and economic treaty since it represents the adoption of a common policy by the European Governments concerned towards associated overseas territories. For this reason it is difficult to foresee what the exclusively economic effects may be of the collaboration now being initiated. Nevertheless, it is possible to indicate the principal issues that might arise from this development and some of the factors -both favourable and unfavourable - that may influence the future course of Latin American trade with Europe.

The statistical data presented in the preceding section show that African exports of some foodstuffs and raw materials, which compete directly with Latin American exports, have gradually been gaining ground in the European market. This trend has been taking place for some time and may soon receive a new and vigorous impetus once the overseas territories have free access to the European common market unless the European countries in the common market adopt special measures to safeguard their trade with Latin America. An accelerated diversion from Latin America to Africa of imports by Germany and the other participating countries would also depend on the scale of productive and social investments that are channelled towards the associated territories. Relatively large and sustained investments for the production of primary commodities may tend to increase world supplies of such commodities faster than the growth of world demand if production in other areas (including Latin America) is maintained or increased at present rates. This could be the case particularly with coffee and cotton.

Thus Latin America might be faced not only with a stagnation or gradual reduction of the European markets for some of its exports but also with a weakening of international prices for these commodities following any sharp increase in supply in markets other than Europe, specially in the United States. In view of the characteristic inelasticity of demand for foodstuffs and tropical materials, the terms of trade would probably be adversely affected by any substantial diversion to the United States market of supplies formerly sold by Latin America in Europe.

/In addition,

In addition, European capital, which tends to follow the direction of trade, may flow on an increasing scale to the African continent. This could result in an appreciable part of Germany's foreign investments, as well as to a lesser degree those of other European countries, being progressively directed away from Latin America.

These are the general prospects that Latin American countries fear may be realized with the integration of overseas territories in the common market. However, there are circumstances and factors that may offset any such tendencies as outlined above. In the first place, with the possible exception of coffee, the overseas territories will scarcely be in a position to take advantage of the treatment granted to them in the six countries of Europe until a relatively long time has elapsed when considerable effort will have been made to develop production. The immediate prospects of competition from African commodities do not seem to be very great, as a general rule, because the volume of production in the colonial territories is very limited (see table I) in comparison with Latin America's share in the world market, and it will take time to remove the obstacles to the expansion of such production.

In the second place, the overseas territories do not offer industrial development prospects of the same kind as those being utilized by European capital in Latin America. African opportunities lie more in the development of some basic public utility sectors and in the creation of facilities for increasing the production of vegetable and mineral raw materials, as well as foodstuffs. In the manufacturing industry, especially that which produces durable consumer and capital goods, any new investment of European capital presupposes the existence of numerous prior conditions which are found more readily in Latin America than on the African continent. That is why, at least over the short term, the overseas territories may not have a very strong attraction for productive private European capital.

Finally, there is also a possibility that, with a view to avoiding sudden dislocations in international trade, the countries participating in the European common market will propose the adoption of measures designed to safeguard for the immediate future their trade with Latin America (and possibly also their trade with other regions) at levels

/not much

not much below the present ones. No positive step has been taken in this direction by these countries. Everything will probably depend on the trade policy in relation to third countries which will be gradually drawn up by the executive organs of the European Economic Community during the transition period. Some indication of the intention to reduce the immediate impact of the common European market on Latin American exports may, however, be found in the protocols annexed to the Common Market Treaty relating to the fixing of quotas for German imports of bananas and of coffee and cacao imported by the Benelux countries and Italy during the transition period under the customs franchise. According to this policy, the portion of the market reserved for imports from overseas territories would be limited to future increases of the European market over the present levels of imports from third countries. This is undoubtedly a possibility, but there is as yet no further information to go on in addition to what has been mentioned.

ANNEX I

CONSTITUTION OF THE INVESTMENT FUND FOR OVERSEAS TERRITORIES

The contributions of the six countries of the European Economic Community to the Investment Fund for overseas territories, for the first five-year period, are distributed as follows:

	<u>Millions of dollars</u>
Federal Republic of Germany	200
France	200
Belgium	70
Netherlands	70
Italy	40
Luxembourg	<u>1.25</u>
Total	581.25

The countries in the Community with overseas territories will benefit from the contributions to the Fund in the following proportions:

	<u>Millions of dollars</u>
France	511.25
Netherlands	35
Belgium	30
Italy	5

The net contribution to be received by the French territories under this plan will increase progressively during the five years that the Convention is in force, as follows:

	<u>Millions of dollars</u>
First year	30.25
Second year	40.25
Third year	50.25
Fourth year	70.25
Fifth year	<u>120.25</u>
Total	311.25

To this contribution to be received from the other countries, must be added France's own contribution of 200 million dollars for its overseas territories within this scheme, making a grand total of 511.25 million dollars.

/ANNEX II

Annex II

SOME STATISTICAL DATA

Table I

SHARE OF LATIN AMERICA AND OF AFRICA IN WORLD EXPORTS OF
SELECTED COMMODITIES

(Percentages of the quantum of world exports)

Commodity and region	1934-38	1948-50	1952	1953	1954	1955
<u>Coffee (thousands of tons)</u>	1660	1940	1960	2100	1800	2090
Latin America	84.2	84.0	81.3	80.9	74.7	73.9
Africa <u>b/</u>	6.9	12.5	14.7	13.6	17.3	19.9
<u>Cotton (thousands of tons)</u>	3070	2370	2330	2450	2680	2390
Latin America	11.1	15.6	17.0	23.1	27.2	26.3
Africa <u>b/</u>	4.2	8.0	9.6	9.2	11.2	12.1
<u>Sugar (thousands of tons)</u>	9800	10650	11250	13450	12200	13500
Latin America	41.1	66.0	60.8	57.5	53.2	46.9
Africa <u>b/</u>	6.7	6.3	6.7	6.3	8.3	7.4
<u>Cacao (thousands of tons)</u>	690	705	655	755	720	720
Latin America	30.1	27.5	22.3	26.3	30.5	27.1
Africa <u>b/</u>	66.9	68.8	71.7	69.3	64.7	62.8

Source: FAO, Yearbook of Food and Agricultural Statistics, and Monthly Bulletin of Agricultural Economics and Statistics.

a/ Excluding the trade of the United States with its territories.

b/ Excluding Egypt.

Table II
SHARE OF THE PRINCIPAL PRODUCING REGIONS IN THE COFFEE
IMPORTS OF SELECTED EUROPEAN COUNTRIES

Importing region Exporting region	Countries of the European Economic Community <u>a/</u>			Other European countries <u>b/</u>			T o t a l		
	1934- 1938	1949- 1950	1954- 1955	1934- 1938	1949- 1950	1954- 1955	1934- 1938	1949- 1950	1954- 1955
(Thousands of tons)									
Brazil	207.8	134.0	128.1	61.5	72.6	75.3	269.3	206.6	203.4
Other Latin American countries	158.0	32.1	100.2	41.0	15.8	15.3	199.0	47.9	115.5
Total for Latin America	365.8	166.1	228.3	102.5	88.4	90.6	468.3	254.5	318.9
Africa	57.5	111.7	170.1	12.1	32.7	28.1	69.6	144.4	198.2
Asia	50.2	8.3	27.5	12.0	0.6	4.7	62.2	8.9	32.2
Total <u>c/</u>	473.5	287.0	431.4	126.6	121.7	130.5	600.1	408.7	561.9
Value (millions of United States dollars)			563.3			150.5			713.8
(Percentages)									
Brazil	43.9	46.7	29.7	48.6	59.7	57.7	44.9	50.6	36.2
Other Latin American countries	33.4	11.2	23.2	32.4	13.0	11.7	33.2	11.7	20.6
Total for Latin America	77.3	57.9	52.9	81.0	72.6	69.4	78.1	62.3	56.8
Africa	12.1	38.9	39.5	9.6	26.9	21.5	11.6	35.3	35.3
Asia	10.6	2.9	6.4	9.5	0.5	3.6	10.4	2.2	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: A study of trade between Latin America and Europe, United Nations Publication, Sales No. 195 II.G., and Commodity Trade Statistics, 1954-55.

a/ France, Italy, Federal Republic of Germany, Belgium, Luxembourg and Netherlands.

b/ United Kingdom, Norway, Sweden, Denmark.

c/ Including figures for other territories, Oceania, etc.

Table III

SHARE OF THE PRINCIPAL PRODUCING REGIONS IN THE COTTON
IMPORTS OF SELECTED EUROPEAN COUNTRIES

Importing region	Countries of the European Economic Community a/			Other European countries b/			Total		
	1934- 1938	1949- 1950	1954- 1955	1934- 1938	1949- 1950	1954- 1955	1934- 1938	1949- 1950	1954- 1955
Export ing region									
(Thousands of 500 lb bales)									
Latin America	613	266	981	464	541	393	1077	807	1374
United States	1561	2269	1122	1275	537	481	2836	2806	1603
Egypt	541	403	407	596	375	64	1137	778	471
Africa	172	245	688	216	438	448	388	713	1136
Asia	602	244	302	410	105	149	1012	349	451
Others	321	464	575	93	43	137	414	507	712
Total	3810	3891	4075	3054	2069	1672	6864	5960	5747
Value (<u>millions</u> <u>of United</u> <u>States dollars</u>)			793.6			355.5		1149.1	
(Percentages)									
Latin America	16.1	6.8	24.1	15.2	26.1	23.5	15.7	13.5	23.9
United States	41.0	58.3	27.5	41.7	25.9	28.8	41.3	47.1	27.9
Egypt	14.2	10.4	10.0	19.5	18.1	3.8	16.6	13.0	8.2
Africa	4.5	6.3	16.9	7.1	22.6	26.8	5.7	12.0	19.8
Asia	15.8	6.3	7.4	13.4	5.1	8.9	14.7	5.9	7.8
Others	8.4	11.9	14.1	3.0	2.1	8.2	6.0	8.5	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics on cotton, United States Department of Agriculture, Bulletin N° 99, and Annual Statistical Bulletin, International Cotton Advisory Committee.

a/ France, Italy, Federal Republic of Germany, Belgium, Luxembourg and Netherlands.

b/ United Kingdom, Norway, Sweden and Denmark.

Table IV

LATIN AMERICA'S SHARE IN THE SUGAR IMPORTS OF SELECTED EUROPEAN COUNTRIES

Importing regions Exporting regions	Countries of the European Economic community a/		Other European countries b/		Total	
	1951-1952	1954-1955	1951-1952	1954-1955	1951-1952	1954-1955
	(Thousands of tons)					
Latin America	732	409	1,465	938	2,197	1,347
Total	1,247	836	2,883	3,161	4,130	3,997
Value (millions of United States dollars)		98.0		304.1		402.1
	(Percentages)					
Latin America	58.7	48.8	85.5	29.7	53.2	33.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: OEEC, Statistical Bulletins, Fourth series.

a/ France, Italy, Federal Republic of Germany, Belgium, Luxembourg and Netherlands.

b/ United Kingdom, Norway, Sweden and Denmark.

Table V

LATIN AMERICA'S SHARE IN THE CACAO IMPORTS OF SELECTED EUROPEAN COUNTRIES

Importing region Exporting region	Countries of the European Economic community a/		Other European countries b/		Total	
	1951-1952	1954-1955	1951-1952	1954-1955	1951-1952	1954-1955
(Thousands of tons)						
Latin America	26,202	34,910	3,548	10,315	29,750	45,225
Total	194,769	217,847	131,802	164,984	326,571	382,831
Value (millions of United States dollars)		222.3		174.8		397.1
(Percentages)						
Latin America	13.5	16.0	2.7	6.3	9.1	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: OEEC, Statistical Publications, Fourth Series.

a/ France, Italy, Federal Republic of Germany, Belgium, Luxembourg and Netherlands.

b/ United Kingdom, Norway, Sweden and Denmark.

Table VI

LATIN AMERICA'S SHARE IN THE COPPER EXPORTS OF SELECTED EUROPEAN COUNTRIES

Importing region Exporting region	Countries of the European Economic community a/		Other European countries b/		Total	
	1951-1952	1954-1955	1951-1952	1954-1955	1951-1952	1954-1955
(Thousands of tons)						
Latin America	54,999	90,410	11,041	56,003	66,040	146,413
Total	513,984	737,628	454,340	516,775	968,324	1,254,403
Value (millions of United States dollars)						
		564.4		404.7		969.1
(Percentages)						
Latin America	10.7	12.3	2.4	10.8	6.8	11.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: OEEC, Statistical Bulletins, Fourth Series.

a/ France, Italy, Federal Republic of Germany, Belgium, Luxembourg and Netherlands.

b/ United Kingdom, Norway, Sweden and Denmark.